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SUBJECT: ESTONIA'S LAND SWAP SCANDAL

REF: 07 TALLINN 435

¶1. (SBU) SUMMARY: A Security Police (KAPO) investigation has implicated several key Estonian politicians and business leaders in a high-profile corruption case. The "Land Swap Scandal" alleges the ex-head of Estonia's Land Board orchestrated the exchange of environmentally-protected state land for less valuable private land in exchange for bribes. KAPO also named two former GOE ministers as suspects in the case. The investigation could go several more months before coming to trial, but legislative remedies are already underway. While the case has hurt the once-strong People's Party, there is little chance it will significantly tarnish Estonia's overall reputation for transparency and a pro-business environment. END SUMMARY.

¶2. (U) In October 2006, KAPO named Kalev Kangur, the former head of Estonia's Land Board, and three prominent businessmen as suspects in an alleged bribery scheme. In a case going back to August 2005, KAPO claimed that owners of private land exchanged their property for more valuable, public land by exploiting their ties to Kangur. Prosecutors have said the swaps made by the Land Board were often unfavorable to the state, and they allege that the landowners effectively traded unusable rural plots for prime urban real estate.

¶3. (U) Kangur is accused of masterminding the scheme of swaps, and directing the acquisition of plots throughout Estonia, using inside information about which lands were to be placed under conservation status. Kangur allegedly used front companies to exchange or resell properties received from the state to buyers he selected. He also supposedly influenced appraisers to value plots unfavorably to the state, and drafted land swap resolutions for then-Minister of Environment Villu Reiljan to approve. Reiljan -- a sitting MP and ex-chairman of the opposition People's Union party -- resigned last year from the parliamentary committee that supervises the activity of security agencies to avoid conflict of interest during the investigation.

The Case Widens

¶4. (U) In October 2007, KAPO formally named both Reiljan and former Minister of Agriculture Ester Tuiksoo as additional suspects in the case. Both are accused of approving the deals in exchange for financial and material gratuities from those who benefited from the swaps. KAPO also named two more businessmen -- building entrepreneur Toomas Annus, and car dealer Andres Sarri -- as suspects, bringing the total to nine. The investigation is expected to continue for some time.

¶5. (U) On November 5, the GOE's coalition council approved a draft proposal by current Minister of Environment Jaanus Tamkivi's to amend the Nature Conservation law. The following day, the ministry sent the proposal to other ministries for

review. The proposed amendments would end the practice of exchanging nature conservancy land for state-owned properties and replace it with a more transparent system for purchasing land at market prices. Minister Tamkivi has said he believes the new system would not only be more fair, but would also save the state the USD 1400 processing costs it currently pays for each land deal. (Note: Presently the Land Board is processing over 500 land swap applications. End Note.) The Cabinet and then Parliament will have to approve the proposed changes to the law.

Comment

16. (SBU) Estonia has a reputation as a good place to do business (reftel). We do not believe the Land Swap scandal will have a significant impact on investor confidence in the real estate sector, or Estonia's wider image abroad. Politically, however, the case has already done some damage. Support for the People's Union party, a member of the 2005-2007 governing coalition and one of six parties in the current parliament, has been declining since the defeat of its candidate, former President Arnold Ruutel, for re-election in fall of 2006. With the alleged involvement of Reiljan and Tuiksoo, the scandal has become closely associated with People's Union. According to recent polls, if elections were held today, the party would fail to get enough votes to qualify for any seats in the Parliament.

DECKER